

## Exploring the Connection between Corruption and Corporate Governance

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### Abstract

*The article analyses the relation between the corporate governance requirements and the corruption phenomenon, explaining how by respecting or ignoring certain aspects of governance and disclosure, might have a fundamental significance in the fight for combating the corruption behaviours or encourage them. The research problem is finding the correlation between corruption and the quality of the corporate governance system. We proved that assuming the conjunction of the cultural dimensions power distance indicator, uncertainty avoidance and short-term orientation in the same society is a red flag for corruption thriving in the respective country is true.*

**Key words:** corporate governance, anti-corruption policies, corruption, compliance, Hofstede  
**J.E.L. classification:** D73, G34, M14

### 1. Introduction

The article analyses the relation between the corporate governance requirements and the corruption phenomenon, explaining how by respecting or ignoring certain aspects of governance and disclosure, might have a fundamental significance in the fight for combating the corruption behaviours or encourage them. Interaction between the corporate governance system and national culture is incredibly important in understanding the corruption at a society level.

We started by defining the conceptual terms related to this paper, like corporate governance, culture and cultural dimensions, organizational culture, corporate social responsibility, institutions, institutional theory. Following, we drew hypothesis and analysed diverse studies on the same theme, proofing, or refuting the hypothesis and elaborated the conclusions accordingly.

### 2. Theoretical background

Institutions are the resilient social structures characterized by established practices, regulative standards, cognitive and cultural behaviours, normative features, isomorphism, certain communications patterns, all leading the attitudes towards deliberate purposes.

Institutionalism or the institutional theory defines corruption in the public sector using government typical features, anti-corruption standards and independent anti-corruption institutions. According to W.R. Scott, the institutional theory refers to legislating the regulations and norms for the organizations to comply and be supported by authority. (Scott, 1998)

Corporate governance (CG) describes the manner the companies are ruled. We can define CG by all processes and structures that are applied by the board of directors for informing, coordinating, managing, monitoring the activities of an organization in achieving the settled objectives, or "a system by which companies are directed and controlled." (Cadbury, 1992)

Corporate governance concept refers to ethics, social responsibility, good practices activities in business and control activities. The interest in this field raised lately and there is a unanimous awareness over the CG and its benefits in the present times as crises, competition and corruption emphasized the weakness in corporate governance of companies and institutions.

Corporate social responsibility (CSR) is tremendously important for the economic environment. The way companies approach CSR depends on CG recommendations they choose to apply or not. Companies need to raise awareness over sustainability, decrease the negative consequences on the environment and raise the volume of positive activities. By adopting CSR techniques, organizations would increase their competitiveness, raising the business value, improve their credibility and their market value.

We can define corruption as the alteration of a person's integrity or the use of dishonest practices for one's own benefit, a phenomenon that is present in every country, disregarding the education level, economic situation, or political structure. Corruption takes various forms, from abuse of power, bribery, conflict of interest, nepotism, illicit gifts, unlawful embezzlement, taking unjustified advantages, incompatible trade, diversions, passive or active corruption of public persons, abuse of social goods, unlawful exonerations, fraud, etc. and can lead to organized crime and terrorism if monitoring and acting against fails. It mostly affects the poor and impedes the developing countries to remove poverty.

### **3. Research methodology**

The research problem is finding the correlation between corruption and the quality of the corporate governance system. We made qualitative research, using primary data, as theoretical concepts and we also used secondary data, as theories about corruption and corporate governance. Our goal for this qualitative ethnography was to show a contextual actuality of expertise about the beliefs and behaviours of people in a society and how this affects the perception of corruption and the legitimacy of acting in the spirit of the law. We used more interpretive methodology which reflects our position as researchers with the expertise in the field and this is an important thing to point out as it might influence the results.

We used descriptive data, collecting it from the scientific databases where we found specialized papers and book chapters related to anti-corruption practices, corruption theories, the dimensions of culture, and the dimensions of corporate governance and speciality books of renowned authors from the field.

With this approach in mind, we drew the hypothesis for this research:

*H1 Corruption phenomenon is enhanced in societies where joint cultural dimensions like high power distance, high uncertainty avoidance and short term oriented are more present.*

*H2 A high quality of corporate governance has a negative impact on the corruption level.*

### **4. Findings**

#### **4.1. Organizational culture and cultural dimensions**

Organizational culture consists of a series of strong factors, interdependent, like politic, economic, legal, technological, cultural that influence the strategy, the functions, and the management processes. Defining the culture starts from the human resource. The organizational resource refers to the human capital, is characterized by different social environments, ideas, beliefs, emotions acknowledged at the individual or social level and shared to others, enriched, or replaced helped by customs or rules that already exist within the organization. We might admit that organizational

culture represents the personality of a company, shared by all its members. Meanwhile, culture depicts the material manifestations, the work environment conditions for the members of the organization, the discrepancies occurred in different hierarchic levels, wages, etc. the specificity of organizational culture is given by the values, beliefs, symbols, habits, traditions, historical factors, etc. All the relations between the members of an organization, the board of directors, managers, shareholders, and stakeholders are influenced by the dimensions of the organizational culture and corporate governance (Carataş M.A., 2020).

*H1 Corruption phenomenon is enhanced in societies where joint cultural dimensions like high power distance, high uncertainty avoidance and that are short term oriented, are more present.*

When implementing the organizational culture within an organization one cannot ignore the national culture and the compatibility between the two of them. Leaders of these organizations play a major role in promoting the organizational culture, which is the strongest force within a company. Culture is the context where all members of a society operate together and define the directions of an entity. It creates a common space for all team members and helps in a transparent way to eliminate uncertainty linked to explaining events or actions, offering a common language to everybody.

Geert Hofstede managed to define a pattern that characterizes cultures through five specific dimensions:

- masculinity/femininity,
- power distance,
- collectivism/individualism,
- uncertainty avoidance,
- short-term or long-term orientation and
- indulgence/ restraint, which we define further on.

*The power distance index or the social steps and egalitarianism (relations with authority)*

This dimension is specific to people from a certain culture relating to power at the place where they practice the job. In certain cultures, persons of authority keep very distant relations towards their employees’ – high power distance and the inequalities between people are claimed, accepted, and reflected in the hierarchy of the organization; the less powerful people depend on more powerfully ones, the status, the privileges, and centralization are common. Some examples of countries with high power distance index are Malaysia, Mexico, Venezuela, China, Egypt.

In other societies, people of authority keep closer relations with their subordinates – low power distance, the inequalities between people are minimized people are interdependent, the hierarchy expresses inequality on the roles of members, decentralization is common, and privileges and status are displeased. The states characterized by low power distance are the Unites States, the United Kingdom, Israel, Northern countries, New Zealand, Austria.

*Avoiding uncertainty or accepting equivocal situations and risk vs. the tendency towards rearranging and consistency*

This indicator shows us the level of reception of culture towards unstructured and dangerous situations. The cultures that enjoy a low level of avoiding the lack of certainty accept more relaxed the unpredicted and vagueness. The highest is the uncertainty avoidance index, the more those respective societies are inflexible and oriented towards complicated norms that might help them in avoiding risks, lack of security and the level of restlessness. Greece, Portugal, Belgium, Japan are countries with high uncertainty index and India, United Kingdom, Sweden, Denmark, Singapore are the ones with the lowest score.

*The masculinity vs femininity score or affirmation and materialism vs valuing life, success in life*

This indicator is related to the divisions of roles within a culture. According to this dimension, self-affirmation, material success, progress and assigning responsibilities are masculine qualities and the concern for other people, valuing life and collaboration are feminine qualities. Japan, Austria, Venezuela, Italy are all high masculine countries while Portugal, Northern countries, the Netherlands, and Costa Rica are feminine cultures.

*Individualism and collectivism or I vs. us (relations with others)*

This indicator shows the extent to which members of society work only for their own advantage and their family or for wider social group advantage. In a collectivist society, loyalty is fundamental, above all the other rules. The relationship between employer and employees is perceived in terms of morality, the same as within a family. The employment decisions, the promotions are taken by considering the group relation, the relationships take precedence above risks.

*Long term vs short term dimensions or patience appreciation*

Long term orientation involves the adaptation of traditions in a modern context, big investments funds, the tendency of acquiring long-term results and the appreciation of virtues. Short term orientation identifies more with respect and tradition, retaliation of gifts, favours, and personal stability. This dimension was added last, and its aim was the attempt to describe the difference in reasoning between the Eastern and Western societies. China, Taiwan, Japan, Brazil, India are long-term-oriented countries while the Philippines, Ghana, Nigeria, Sierra Leone are short term-oriented cultures.

*Indulgence versus restraint IVR - the happiness dimension*

Minkov, the Bulgarian scholar, researched this last dimension added on Hofstede model, studied such elements like the shopping behaviour of customers, the social trust and freedom of speech to interpret the cultural reactions (Hofstede & Minkov, 2010). This cultural dimension is used to express the control of desires through the manner they were raised. Societies with a weaker control over desires are indulgent and tend to allow granted satisfaction of basic and natural human desires linked to the joy of life and pleasure while restrained societies have the belief that such satisfaction should be limited and normed by strict rules. There are three subdimensions at this level, such as happiness and pleasure in life, the importance of free time and friendship and control over life. An indulgent culture has a higher proportion of happy people, is characterized by a positive attitude, optimism, extravert people, greater importance given to leisure and having friends. A restrained culture, on the opposite, has a lower proportion of very happy occupants, people do not consider having friends and free time important, pessimism, cynicism, higher moral discipline, and a high percentage of deaths due to cardiovascular diseases.

Hofstede's studies smooth the understanding of cultural diversity causes among countries and their effects on business management. (Hofstede G., 2001)

Corruption influences socio-economic dimensions in such a way that in countries with high governance standards, compared with the opposite ones, the level of corruption is lower. In their recent research, Boateng highlighted the importance of understanding the interaction between corporate governance and the national culture and their effects on corruption levels (Boateng et al., 2020). Thus, in a country where the power distance dimension prevails, the adherence to governance good practices tends to not being followed and to be replaced with the culture of favouritism and nepotism, increasing the level of corruption, while the other Hofstede's cultural dimensions – individualism and indulgence have a negative effect over corruption.

The conjunction of the three cultural dimensions, which we named in our first hypothesis, is likely to describe corruption in a society. We hence proceeded to demonstrate this presumption by analysing the cultural dimensions and we used as a source of verification the last available data from Transparency International, as old as 2018. We selected for this table the less corrupted countries and the countries that scored higher on the three dimensions we focused on to prove the hypothesis. It is easy for one to note that the assumption was true.

CPI – refers to the “Corruption Perception Index” - the higher the index, the less corrupt is the country

PDI – “Power Distance Index” - the higher the index, the greater the power distance

UAI - “Uncertainty Avoidance Index” long-term oriented countries have a higher registered value

Table no. 1 Corruption Perception Index vs Cultural Dimensions Indices

Country	CPI	PDI	UAI	LTO
Nigeria	27	80	55	13
Colombia	36	67	64	13
Ghana	41	80	65	4
Morocco	43	70	68	14
Germany	80	35	65	83
Sweden	85	31	29	53
New Zealand	87	22	49	33
Denmark	88	18	23	35

Source: Authors' retrieval from Transparency International, Hofstede Insights

#### 4.2. Corruption and anti-corruption performances

*H2 A high quality of corporate governance policies has a negative impact on the corruption level.*

We align to Griesshaber & Geys opinion about civic engagements and democratic societies, where democratic abilities and behaviours are cherished to negatively influence the development of corruption. Also, in a society with a pronounced civic commitment, the chance to encounter outlawed attitudes is much higher and has an impact on lessening corruption. (Griesshaber and Geys, 2012) The corruption perception depends on political awareness, as a factor of influence in trusting the political representatives and public administration. People with medium political interest and more educated, compared with people with no formal education have a higher tendency in trusting public administration, as Van de Walle and Migchelbrink found in their 173 European regions study over corruption and people trust in public administration (Van de Walle and Migchelbrink, 2020).

In the business environment, companies engage in corrupt activities aiming to obtain a competitive advantage by bribery. This kind of behaviour would lead to higher profit for the business and their shareholders but will have an obvious negative effect on society, income growth and economic sector entirely. Measures to diminish the corruption have been taken on the international level but on a national perspective, states can mitigate it by endorsing higher standards of integrity and transparency, adopting international practices, and including in their legislations' specific corruption offences. Another way of diminishing corruption is by harmonising the codes between jurisdictions and improving the business sector in terms of integrity by aligning to corporate governance reference standards. OECD elaborated the Convention on Combating Bribery related offences "related bribing of foreign public officials," issued sanctions, and made recommendations and guidelines for international business transactions to combat bribery (OECD, 2011). The G20 Policy Paper comes with recommendations over a culture of high integrity in the private and public sector, managing corruption risks by use of technology and sharpen integrity, accountability, and transparency in public acquisitions (B20 Policy Paper, 2020).

For developing countries, in their development work and integration process in the globalized economy, solid corporate governance becomes mandatory, not an alternative. Countries can either supply a CG system by importing it or self-defining the principles of CG (Peters et al. 2011). Importing a system without considering the local vectors, as legislation system, fiscal system, cultural dimensions, accounting practices, the proportion of experienced managers, the perception of corruption within a country might lead to failure. An optimal solution would be adapting the

governance standard to local conditions.

Anti-corruption practices might be successful in companies where compliance and ethics programs are implemented. These companies must plan internal controls, organize training on anti-corruption laws, have a functional system in the company encouraging the employees to report any doubtful behaviours and set up penalties for the wrongdoers. Good practice in the fight against corruption is the inclusion of anti-corruption requirements in the CSR policy of companies. This will lead to higher performance of the company, better reporting, and improvement of the business environment. The leading standards for economic, social and environmental reporting are ruled by the Global Reporting Initiative (GRI). GRI 205, appeared in 2016 with effect from 2018 and relates to the anti-corruption subject. The standards include a set of disclosures about “management approach, operations related to corruption risks, communication and training on corruption policies topic and procedures and confirmed incidents of corruption and their resolution” (GRI, 2016).

Huber draws attention over corruption and *perception of corruption* (Huber, 2001). Hofstede’s study analysis is accurate on the perceived image of corruption and not the actual situation, because certain cultures, by their cultural dimensions’ indices found in certain countries, give the perception of corruption and even by taking efficient measures and making great progress, the culture within a country will not change, that means the perception of corruption is difficult to be changed too. Only corporate governance, being a tool to implement in a business environment can be efficiently applied and lead to great results, that is why in combating corruption process, public and private institutions need to cooperate. Thus, the second hypothesis is correct.

## 5. Conclusions

Non-financial disclosure, if done responsibly, might have a great impact on the risk of corruption. Investors assess certain risks before making their investment decisions, like studying the company location and the market entrance conditions.

Good practice in the fight against corruption is including anti-corruption policies and requirements in companies CSR. This will lead to higher performance of the company to better reporting and improved business environment.

The quality of the corporate governance system might counteract the effects of corruption within a society. Application of the institutional theory for analysing the common effect of culture and corporate governance over corruption is meaningful, seeing that the corruption level cannot be seen beside the social environment where it occurs.

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